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FIRST Trust ADVISORS L.P.

Mar. 12 2007

Monday Morning Outlook

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-12 / 1:00 pm	Treasury Budget - Feb	-$120.0 Bil	**-$122.6 Bil**		$38.2 Bil
3-13 / 7:30 am	Retail Sales - Feb	+0.3%	**+0.3%**		+0.0%
7:30 am	"Core" Retail Sales - Feb	+0.3%	**+0.1%**		+0.3%
9:00 am	Business Inventories - Jan	+0.1%	**+0.2%**		+0.0%
3-14 / 7:30 am	Import Prices - Feb	+0.8%	**+0.7%**		-1.2%
7:30 am	Export Prices - Feb	+0.3%	**+0.2%**		+0.3%
3-15 / 7:30 am	Empire State Index - Mar	17.5	**20.0**		24.4
7:30 am	Initial Claims - Mar 10	325K	**325K**		328K
7:30 am	PPI - Feb	+0.5%	**+0.4%**		-0.6%
7:30 am	"Core" PPI - Feb	+0.2%	**+0.2%**		+0.2%
11:00 am	Philly Fed Survey - Mar	4.0	**6.6**		0.6
3-16 / 7:30 am	CPI - Feb	+0.3%	**+0.3%**		+0.2%
7:30 am	"Core" CPI - Feb	+0.2%	**+0.2%**		+0.3%
8:15 am	Industrial Production - Feb	+0.3%	**+0.2%**		-0.5%
8:15 am	Capacity Utilization - Feb	81.3%	**81.3%**		81.2%

Back to the Future

Real GDP growth has fallen below 3%, the unemployment rate is way down from the recession high but seems to have stalled, initial claims have spiked, and productivity growth has slowed. Real average hourly earnings are still lower than they were at the peak of the last recovery and the ISM Manufacturing Index has recently dipped below 50 – its lowest level in almost five years. Despite a five-year old recovery, manufacturing payrolls are shrinking. Demand is weakening among both consumers and businesses: retail sales excluding autos are up only 2.5% versus a year ago; shipments of capital goods excluding defense and aircraft are up only 1.6%.

Given these worrisome economic statistics, how can we remain optimistic? How can we remain confident that the expansion will continue?

Partly because the data we referred to in the first paragraph were purposefully misleading. It may sound familiar but none of it is from the current recovery. It's from January 1996. That's right, 1996, right smack dab in the middle of the last expansion. It comes from what has been called a "growth recession" in the mid-1990s, just before productivity growth re-accelerated and economic growth picked back up.

The similarities between the two business cycles are striking. Both started out with modest recessions, followed by relatively weak "jobless" recoveries. Most early gains in income accrued to companies and high-income workers, not middle or lower-income workers. But after dramatic Fed tightening, the economy entered a soft patch. In the 1990s, the economy reaccelerated and falling unemployment helped generate strong income gains for workers across the income spectrum. In turn, Washington, DC found itself on the receiving end of a gusher of revenue that drove the federal budget into surplus territory for the first time in decades.

We expect this pattern to repeat itself in the current decade. Not every month or quarter of bad data signals the end of an economic expansion. Often it's just statistical "noise." Other times, once the data gets revised a few years later, it turns out the lull never even happened in the first place. It was just bad data based on limited information and faulty statistics.

Expansions do not die of old-age; they are killed by policy mistakes – like excessive Fed tightening, protectionism or tax hikes. With these mistakes still at bay, we continue to forecast robust economic growth and healthy equity markets ahead.

Week of March 19, 2007

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-20 / 7:30 am	Housing Starts - Feb	1.456 Mil	**1.394 Mil**		1.408 Mil
3-22 / 9:00 am	Leading Indicators - Feb	+0.0%	**+0.0%**		+0.1%
3-23 / 9:00 am	Existing Home Sales - Feb	6.320 Mil	**6.432 Mil**		6.457 Mil

Brian S. Wesbury; Chief Economist **Robert Stein, Senior Economist**